



**CITY OF DETROIT  
LOCAL DEVELOPMENT FINANCE AUTHORITY**

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

**CITY OF DETROIT  
LOCAL DEVELOPMENT FINANCE AUTHORITY**

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## Independent Auditors' Report

The Board of Directors of the  
Local Development Finance Authority:

We have audited the accompanying financial statements of the governmental activities and General Fund of the City of Detroit Local Development Finance Authority (the Authority), a component unit of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the City of Detroit Local Development Finance Authority as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

The Authority has not presented management's discussion and analysis and budgetary comparison information, which U.S. generally accepted accounting principles have determined are necessary to supplement, although not required to be part of, the basic financial statements.

**KPMG LLP**

Detroit, Michigan  
February 25, 2008

**CITY OF DETROIT**  
**LOCAL DEVELOPMENT FINANCE AUTHORITY**

Statement of Net Assets and General Fund Balance Sheet

June 30, 2006

	<u>General Fund</u>	<u>Adjustments (note 9)</u>	<u>Statement of net assets</u>
Assets:			
Cash	\$ 5,355,048	—	5,355,048
Restricted investments	28,807,614	—	28,807,614
Total assets	<u>\$ 34,162,662</u>	<u>—</u>	<u>34,162,662</u>
Liabilities:			
Accounts payable	\$ 127,411	—	127,411
Accrued interest payable	—	769,595	769,595
Long-term liabilities:			
Bonds payable, due within one year	—	3,285,000	3,285,000
Bonds payable, due after one year	—	79,555,000	79,555,000
Total liabilities	<u>127,411</u>	<u>83,609,595</u>	<u>83,737,006</u>
Fund balance/net assets:			
Fund balance:			
Reserved for debt service	28,946,930	(28,946,930)	—
Reserved for grant projects	5,088,321	(5,088,321)	—
Total fund balance	<u>34,035,251</u>	<u>(34,035,251)</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 34,162,662</u>		
Net assets:			
Restricted for debt service		\$ 28,177,335	28,177,335
Restricted for grant projects		5,088,321	5,088,321
Unrestricted (accumulated deficit)		(82,840,000)	(82,840,000)
Total net assets		<u>\$ (49,574,344)</u>	<u>(49,574,344)</u>

See accompanying notes to financial statements.

**CITY OF DETROIT**  
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Statement of Activities and General Fund Revenues,  
Expenditures, and Changes in Fund Balance

Year ended June 30, 2006

	<u>General Fund</u>	<u>Adjustments (note 9)</u>	<u>Statement of activities</u>
Expenditures/expenses:			
Interest payments	\$ 4,799,205	(30,273)	4,768,932
Principal payments	3,370,000	(3,370,000)	—
Administrative charges	347,959	—	347,959
Grant expenditures	2,473,193	—	2,473,193
Total expenditures/expenses	<u>10,990,357</u>	<u>(3,400,273)</u>	<u>7,590,084</u>
General revenues:			
Property taxes	11,350,812	—	11,350,812
Other revenue	2,072,744	—	2,072,744
Earnings on investments	1,469,376	—	1,469,376
Total general revenues	<u>14,892,932</u>	<u>—</u>	<u>14,892,932</u>
Excess of revenues over expenditures	<u>3,902,575</u>	<u>3,400,273</u>	<u>7,302,848</u>
Change in net assets	3,902,575	3,400,273	7,302,848
Fund balance/net assets, beginning of year	<u>30,132,676</u>	<u>(87,009,868)</u>	<u>(56,877,192)</u>
Fund balance/net assets, end of year	<u>\$ 34,035,251</u>	<u>(83,609,595)</u>	<u>(49,574,344)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2006

**(1) Purpose**

The City of Detroit Local Development Finance Authority (LDFA or the Authority) is a separate legal entity, and reported as a discretely presented component unit of the City of Detroit (the City), that was created on October 31, 1988 pursuant to Act 281 of the Michigan Public Acts of 1986. The creation and establishment of the LDFA was, in part, to finance the Jefferson/Conner Industrial Revitalization Project (the Project). The Project's area encompasses approximately 380 acres and is located in southeast Detroit. DaimlerChrysler's Jefferson North Assembly Plant (the Plant) occupies approximately 60% of the Project's total land area. In October 2003, the Authority entered into a Core Community Fund grant agreement with the Michigan Economic Development Corporation that includes several City improvement projects.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Authority have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**(a) Financial Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority has no component units. However, the Authority is a component unit of the City.

**(b) Basis of Presentation**

The financial activities of the Authority consist only of governmental activities. For its reporting purposes, the Authority has combined the fund and governmentwide financial statements using a columnar format that reconciles individual line items of the General Fund financial data to governmentwide data in a separate column. A brief description of the Authority's governmentwide and fund financial statements is as follows:

**Governmentwide Financial Statements**

The governmentwide statement of net assets and statement of activities report the overall financial activity of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by property taxes.

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The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., economic development) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The Authority has only one function – economic development.

**Fund Financial Statements**

The fund financial statements provide information about the Authority's only fund, the General Fund. The General Fund is the Authority's primary operating fund and accounts for all financial resources of the Authority.

**(c) Basis of Accounting**

The governmentwide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, consist primarily of property taxes. On an accrual basis, revenues from property taxes are recognized in the fiscal year in which the taxes are intended to finance. Revenue from grants is recognized in the fiscal year in which eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as permitted under accrual accounting. However, principal and interest on general long-term debt are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the governmentwide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**(d) Use of Estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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**(e) *New Accounting Pronouncement***

The Authority adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. It amends paragraph 34 of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement enhances usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of *legally enforceable restrictions* imposed on net assets by enabling legislation or restrictions imposed by an external party that compel a government to use resources created by enabling legislation only for the purposes specified in the legislation. No changes were made in the recorded value of net assets based on the Authority's implementation of this pronouncement.

**(3) *Cash and Investments***

State laws authorize the Authority to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Authority is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned by the bank. At June 30, 2006, the book value of the Fund's deposits was \$5,355,048 with a corresponding bank balance of \$5,387,317. Of the bank balance at June 30, 2006, \$147,231 is insured by the Federal Deposit Insurance Corporation (FDIC). The uninsured balance of \$5,240,086 was exposed to custodial credit risk.

***Custodial Credit Risk of Investments***

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. As of June 30, 2006, the Authority had no investments subject to custodial credit risk.

***Interest Rate Risk***

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The Authority does not have a policy for interest rate risk.

As of June 30, 2006, the Authority's investments are with a money market fund that has a maturity of less than one year.



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***Credit Risk***

State law limits the Authority's investments in commercial paper, mutual funds, and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs). The Authority does not have a policy for credit risk.

As of June 30, 2006, the Authority's investments are with a money market fund with a fair market value of \$28,807,614, which was rated Aaa by Moody's, AAA by Fitch, and AAAm by S&P.

**(4) Debt Financing**

On September 15, 1998, the Authority issued \$52,205,000 in 1998 Series A Subordinated Bonds, of which \$46,869,964 is being used to pay the City for certain costs of public facilities. Principal and interest payments commenced on May 1, 1999 and are payable through May 2021. Interest payments are due semiannually in May and November.

On September 5, 1997, the Authority issued \$45,865,000 in 1997 Series A Tax Increment Refunding Bonds, with an average interest rate of 5.3%, to refund \$42,000,000 of outstanding bonds issued in 1991. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on all the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability for those bonds has been removed from the financial statements. The amount of defeased debt outstanding at June 30, 2006 is \$33,615,000.

On September 5, 1997, the Authority also issued \$11.5 million in 1997 Series B and Series C Tax Increment Bonds, the proceeds of which are being used to pay the City for certain costs of public facilities. Principal payments commenced on July 14, 2000 and are payable through July 2021. Interest payments are due semiannually in May and November and commenced on November 1, 1997.

The redemption dates and aggregate principal and interest amounts for each such redemption date are as follows:

	<u>Principal amounts</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 3,285,000	4,617,570	7,902,570
2008	3,315,000	4,439,135	7,754,135
2009	3,345,000	4,260,245	7,605,245
2010	3,385,000	4,079,525	7,464,525
2011	5,405,000	3,896,298	9,301,298
2012 – 2016	29,150,000	14,865,444	44,015,444
2017 – 2021	34,955,000	6,012,881	40,967,881
Total	<u>\$ 82,840,000</u>	<u>42,171,098</u>	<u>125,011,098</u>

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The outstanding indebtedness of the Fund for the bonds was \$82,840,000 million at June 30, 2006. The interest rates on the outstanding fixed rate bonds range from 4.2% to 5.3%. The property taxes of the Authority are pledged for repayment of the bonds.

	<b>Balance July 1, 2005</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2006</b>
Bonds payable	\$ 86,210,000	—	(3,370,000)	82,840,000

**(5) Restricted Assets**

Restricted assets are accumulated in accordance with bond ordinance provisions or other restrictive covenants. Reserved fund balance represents restricted assets.

Restricted assets, at fair value, included the following as of June 30, 2006:

Short-term securities	\$ 28,715,165
Accrued interest	<u>92,449</u>
Total restricted investments	<u>\$ 28,807,614</u>

**(6) Property Tax Revenue**

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full or one half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. The City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

Property tax revenues consist of the incremental portion of the City's and Wayne County's property taxes for each year from a base-year amount on the taxable value of the personal and real property of the Plant. The City and Wayne County levy and collect the property taxes allocated to the Authority.

**(7) Explanation of Differences Between Governmental Fund Statements and Governmentalwide Statements**

At June 30, 2006, the statement of net assets includes bonds payable and accrued interest payable that are not due and payable in the current period and therefore are not reported in the fund financial statements. These amounts are \$82,840,000 and \$769,595, respectively, at June 30, 2006. The statement of revenues, expenditures, and changes in fund balance reports the repayment of bonds payable of \$3,370,000 as an expenditure; however, the repayment reduces long-term liabilities in the statement of net assets.